



Leading Sectors for U.S. Export in Mexico

There are opportunities in Mexico for U.S. companies in virtually every sector. The sectors profiled here are particularly strong.

[Agribusiness Sector](#)

[Airport and Ground Support Equipment](#)

[Automotive Parts and Supplies](#)

[Education and Training Services](#)

[Energy Sector](#)

[Environmental Sector](#)

[Franchising Sector](#)

[Hotel and Restaurant Equipment](#)

[Housing and Construction](#)

[Internet and IT Services](#)

[Packaging Equipment](#)

[Security and Safety Equipment and Services](#)

[Telecommunications Equipment](#)

[Transportation Infrastructure Equipment and Services](#)

[Travel and Tourism Services](#)

Agribusiness Sector

Overview

Mexico is among the top 15 world leaders in the agribusiness industry, with 27,300 hectares of permanent cropland. Mexico is also 10th in the world in terms of meat production, providing a total of 4,911 metric tons of red meat alone. For poultry production, Mexico is rated third globally. 2008 was one of the most dynamic years for the Mexican agribusiness industry, due to a steady influx of new technologies, machinery, and fertilizers from U.S., Canadian, and European firms. NAFTA's eradication of virtually all tariffs on agricultural imports provided Mexican producers with the ability to move their products with more ease into U.S. markets. The sectors that have registered the most dynamic growth are the cattle and dairy sector at 5.8%, followed by corn processing at 2.8%, and wheat processing at 2.6%. According to the Mexican Secretariat of Agriculture (SAGARPA) each sector will have an estimated growth of at least 2% in 2009, despite the current world economic crisis. This is due to the growing demand for processed foods and corn for ethanol; this estimated growth translates into approximately USD \$8 billion.

The growing agribusiness sector demands modern agricultural machinery, more efficient technology, fertilizers, enhanced pesticides to protect crops, animal feed, and packaging equipment. However, the global economic crisis has forced some packaging equipment users to postpone future equipment purchases, due in part to the instability of the peso and high interest rates for most loan suppliers.

Modern Agricultural Machinery: This particular sector presents providers with strong opportunities, as 70% of Mexican agriculture is still harvested through manual labor utilizing rudimentary tools. Less than 20% of croplands are irrigated, leaving 80% of crops dependent on seasonal rains or irrigation through mobile water pumps. Federal government infrastructure development programs have provided this sector with USD \$300 million for this purpose alone.

More Efficient Technologies: Some companies have begun to search for alternate means to cultivate crops to reduce time and guarantee supply for the market at a stable price. This trend has been most visible with tequila producers who have started cultivating the agave plant in green houses to reduce the cultivation period by at least 40%. So far, this project has been successful and they plan on expanding this cultivation process on a greater scale.

Fertilizers: Mexico has no national fertilizer industry whatsoever, which results in farmers either fertilizing their crops with traditional products or not using fertilizing. During 2008, farmers continued to express their discontent with the high prices of fertilizers, mainly because they wished to acquire them but did not have the resources to do so. Fertilizers at competitive prices, especially considering government subsidies, will provide a strong market for U.S. firms in the agricultural sector in 2009.

Pesticides: Pesticides is another sector with virtually no national competition. Harvestable land is increasing each year and expanding into new geographical territory, which means farmers now have to worry about protecting their crops against new pests. This task is very difficult with traditional farming methods. It will require modern pesticide technology. These products have also received heavy subsidies by the federal government for small producers.

Animal Feed: More animals require more feed and producers require better balanced meal programs for their livestock. According to SAGARPA, 60% of current producers require new balanced meal programs for their ranches. This is not only for feed, but also for entire feeding systems such as feed traps, dietary supplements, and veterinarian instruments. Slaughter houses have also increased their demand for humane slaughter instruments, technology and sanitation equipment. High quality standards for exports into global markets have obligated producers to bring their entire production lines up to par with global competitors, resulting in over USD \$70 million investment in machinery and feed for livestock.

Packing Equipment: General packing equipment has also had a very considerable increase in demand due to producers' need to begin packing their own products. This is the case for the poultry industry and meat processing industry in general. Exports require standardized packing and labeling requirements, which needs advanced technology and machinery that is not produced in Mexico.

Best Prospects/Services

While the agribusiness industry is not the greatest contributor to the national GDP at 5%, it is a sector with continuous expansion and an average annual growth of 2%. It is also responsible for 9% of the nation's foreign direct investment. The government's investment plan has provided the sector with over USD \$700 million in the past 5 years, and has projected a similar amount for 2009 in an effort to diversify the national economy.

Opportunities

There is virtually no national competition for agribusiness technology and equipment since 90% of products in this sector are imported, presenting an enormous opportunity for U.S. firms. U.S. products are most often the first choice for Mexican companies when acquiring new technologies, due in large part to the U.S. products reputation for excellent quality, innovation, and efficiency.

The performance of the Mexican economy is one of the most important factors affecting future agribusiness related purchases. The large number of free trade agreements that Mexico has created a more open and globalized economy, affecting local producers demand and ability to compete with international and subsidized products. This and the global economic crisis have forced most agribusiness companies to freeze their budgets for immediate equipment purchases. However, analysts predict that purchases will begin the second half of 2009.

Resources

Secretariat of Agriculture, Cattle, Rural Development, Fishing, and Feeding (SAGARPA):

<http://www.sagarpa.gob.mx/>

National Statistical and Geographical Information System:

<http://www.inegi.gob.mx/inegi/default.aspx>

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Airport and Ground Support Equipment Overview

2008 was a difficult year for the aviation industry in both domestic and international markets. The first semester experienced volatility and high oil prices with negative effects on airline operations, flight schedules, end-user costs, and on planned future projects. Previous sector forecasts were not realized and had to be reviewed to show decreased revenues and income losses.

Commercial aviation received a second hit with the global financial crisis, forcing companies to pursue the trend of mergers and bankruptcies. In Mexico, four low-cost carriers suspended activities: Aerocalifornia, Alma de Mexico, Avolar and Lineas Aereas Azteca. One more low-cost carrier, Aviaca, is facing difficulties as well. During the last quarter of 2008, low-cost carriers operated in a more challenging business environment after experiencing tremendous success during the previous two years (2006-2007).

Nevertheless, Mexico still has the largest aircraft fleet in Latin America, both in commercial and executive aviation. With a network of 85 airports (58 international and 27 domestic) and more than 1,300 airfields, the aviation industry reported 55.3 million passengers (pax) and 635,777 cargo tons transported in 2007. For 2008, the figures are less positive: 54.6 million pax estimated and 532, 514 cargo tons, which represents a decline of 1.3% and 15% respectively.

During the period January-November 2008, the airports with the higher passenger's traffic were: Mexico City (26.2 million pax), Cancun (11.5 million), Guadalajara (7.1 million) and Monterrey (3.6 million). Nevertheless, the second semester of 2009 might be a better period of time for a recovery in the industry. Financial markets will be impacted by U.S. resources in key industries,

as well as by the application of public investment in Mexico through the National Infrastructure Plan.

In 2008, the total estimated market value of airports and ground support equipment was roughly USD\$17.9 billion, showing a paltry 5% increase over 2007 figures. In the last three years, U.S. suppliers have lost market share due to new foreign competitors (Brazil, EU, France) and their aggressive export strategies.

The economic outlook for 2009 is conservative with anticipated decreased growth. The Mexican economy will likely witness a slight contraction. It is expected that the aviation sector will reduce its growth until the second half of the year, after the global economic rescue plans (U.S., EU and Japan) are in effect and international markets positively react with more confidence.

Best Prospects/Services

Air transportation is the safest and most efficient means of transportation. Commercial, executive and even military fleets require regular maintenance and services. Moreover, airports must upgrade and renew both their physical plant and operational equipment. Aircraft parts, maintenance of jet engines, and provision of flight services (FBO/MRO), are some of the segments where U.S. suppliers can take advantage of proximity, logistics, import duty-free customs treatment and industrial competitiveness. Among the best prospects for products and services in the aviation /aerospace industry include:

- Airplanes parts and spare parts
- Remodeling services
- MRO and FBO services
- Ground support equipment
- Security ID systems
- Flight information display systems
- Ground maintenance services
- Access controls
- Luggage checking systems
- Conveyor systems
- Elevators
- Metal detectors and security portals
- Turn key services

Opportunities

Further airport infrastructure projects will likely be announced in mid and late 2009. The National Infrastructure Plan launched by President Calderon in July 2007 includes three new airports projects: Riviera Maya (Tulum), Ensenada and Mar de Cortes, as well as other proposals, such as 31 expansion projects and one large project under analysis: the Mexico City new airport which will require an estimated investment of USD\$ 4-5 billion.

Thirty-one existing airports will be substantially expanded, including Toluca, Puebla, Cancun, San Jose del Cabo, Loreto, Nuevo Leon, Monterrey, Guadalajara and Puerto Vallarta. An additional two more expansion projects and a new airport plan (in Merida) are currently being studied. Of the USD \$5.5B in investment required by the aviation portion of the plan, over 45% is to come from the private sector and the remainder from the Mexican government.

Important opportunities for these projects can emerge for those U.S. potential suppliers that are looking for strategic alliances with Mexican counterparts. The bidding process will require U.S. companies to have a presence in the market; either a local subsidiary or a local partner who can represent the product and/or service solution.

Resources

Ministry of Communications and Transportation: <http://www.sct.gob.mx>

Ministry of Economy: <http://www.economia.gob.mx>

Airports of Mexico, Information Website: <http://www.aeropuertosmexico.com>

Aeropuertos y Servicios Auxiliares (ASA): <http://www.asa.gob.mx>

Aeropuertos del Sureste (ASUR): <http://www.asur.com.mx>

Pacific Airport Group (GAP): <http://www.aeropuertosgap.com.mx>

Grupo Aeroportuario Centro Norte (OMA): <http://www.oma.bz>

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Automotive Parts and Supplies

Overview

In 2008, the automotive industry experienced a significant and rapid decrease in profitability due to declining sales, increased competition, and the higher price of raw materials such as steel and oil. The slowdown of the U.S. and Mexican economies has resulted in dramatic changes in the industry and has forced automakers in Mexico to reduce their production. Market realities have led to new trends in car manufacturing, including smaller car sizes and increased fuel efficiency. Furthermore, the spare parts market will increase as used-vehicles are allowed into Mexico because of NAFTA. As a result, opportunities exist for U.S. exporters of spare parts, equipment and new technologies oriented to reduce costs.

Mexico's auto part industry is closely related to the U.S. industry. There are approximately one thousand auto parts manufacturers in Mexico and about 70% of these are subsidiaries of foreign corporations, mainly from the United States. Fifty eight percent of the automobiles sold in Mexico are imported, of which 75% come from the U.S. Total production of vehicles in Mexico in 2008 was 2,102,801. Parts, equipment and first and second tier components from the U.S. have experienced an increase in exports due to increased Mexican production of new models that have shifted from U.S. assembly plants.

The total market for auto parts in Mexico has shown a slight growth from 2007 to 2008 as per estimates. The economic outlook for 2009 is for less growth. While estimates vary, the Mexican economy will likely experience a slight contraction, in contrast to 1.9% growth for 2008. Eduardo Solis, Chairman of the Mexican Auto Association, acknowledged that the industry's situation would worsen in 2009 but expects that it should recover by the end of June. He added that production will fall by 20% during the first half of the year and that a similar decline is expected in sales. To offset the fall in sales, the industry and the government will have to work on other strategies to target niches in the domestic market. The industry might also ask the government to reduce taxes for purchasing and owning a car. Despite the decline in demand and production, many automotive companies announced large investments in Mexico last year. This is due to

Mexico's advantage in low labor costs and recent technological development in the auto industry. In addition, companies are looking for lower manufacturing and export costs.

Best Prospects/Services

The greatest opportunities include: spare and replacement parts for gasoline and diesel engines, collision repair parts, gear boxes, drive axles, catalytic converters, and steering wheels. In the first and second-tier supply chain sector, opportunities include: OEM parts and components, precision assembly devices, machined parts, hybrid vehicle components, suspension systems, and pre-assembly components such as small and progressive stampings. Other products in demand include electronic components, specialized tooling, systems that eliminate waste and green technologies such as new combustion systems to reduce gas emission and oil consumption.

Opportunities

Given the economic slowdown, lack of financing, high interest rates and competition, the market has become more price-sensitive. In Mexico, 70% of new cars are purchased on credit. Because of the credit shortage, new car sales have decreased and many consumers choose to maintain their vehicles for a longer period of time. As a result, OEMs located in Mexico will continue to reduce production along with implementing strategic changes in their brand vehicles, including new technologies to make them more efficient and less expensive.

The number of used vehicles being imported, especially after the NAFTA allowance for newer models, provides opportunities for exports of repair equipment and replacement parts. Effective January 2009, the Mexican government allows entrance of U.S. used vehicles. However, U.S. companies still face some barriers when exporting to Mexico. The most significant requirements include having a Certificate of Origin as well as a 10% tariff based on a minimum estimated price, or "reference price" for the given year, make, and model of the car. Importers of used vehicles must post a guarantee representing any difference in duties and taxes if the declared customs value is less than the established reference price. U.S. exporters are advised to work closely with their importers and customs brokers to ensure that all specific requirements are met. Participation in Mexican automotive trade shows provides excellent opportunities to introduce new products and services in Mexico.

Resources

State of Jalisco Auto-parts Distributors Association: <http://www.rujac.com>

The National Association of the Manufacturers of Buses, Trucks and Tractor Trailers: <http://www.expotransporteanpact.com.mx>

National Auto-Parts Industry Association: <http://www.ina.com.mx>

Mexican Association of Automobile Distributors: <http://www.amda.org.mx>

Mexican Association of Automotive Industries: <http://www.amia.com.mx>

National Association of Bus and Cargo Trucks Producers: <http://www.anpact.com.mx>

National Chamber of Cargo Transports: <http://www.canacar.com.mx>

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Education and Training Services

Overview

Mexico remains the seventh-leading country of origin for students studying in the United States, with over 14,000 Mexican students enrolled mainly in undergraduate programs. About 50% of Mexican students who decide to study abroad choose the U.S. because of the strong commercial ties between the countries, as well as the prestige of the higher education system in the United States.

There is a growing demand for English language competency within Mexican higher education. In order to increase the knowledge of a second language in this competitive market, several Mexican private universities use the TOEFL Institutional exam as a requirement for students in all fields of study. It is estimated that between 4-6% of Mexican ESL students travel abroad for intensive English programs.

Training Services

As a result of the competition in the global market, forward-looking companies and institutions are developing and promoting a new working culture that increases personal and professional development opportunities for their employees.

Due to the world's difficult economic situation and the uncertainty of the exchange rate between the peso-dollar, the demand for educational programs within companies, as well as students traveling abroad looking for 4 year academic programs, will be affected; therefore, it is important to develop a strategy that includes more scholarships, dual programs, exchange programs as well as distance learning/training options.

Best Prospects/Services

- Short term ESL Programs for students
- Recruitment of students to study in the U.S. in areas such as engineering, business administration, and health programs
- Corporate training programs in management, leadership, as well as executive level language proficiency programs
- Dual-degree programs in international business, management, finance, engineering programs, etc. (Undergraduate and graduate level)
- Technical programs

Opportunities

Mexican public and private colleges are focusing on alliances and agreements with foreign schools to provide joint programs, dual certification and exchange programs for students and professors. These programs have become more important as Mexico has become a key player in the world economy. Also, technical programs for the automotive, health and services industries have strong potential in Mexico.

Resources

Education USA – Mexico: <http://www.usembassy-mexico.gov/educationusa>

Secretaría de Educación Pública: <http://www.sep.gob.mx>

Asociación Nacional de Universidades y Escuelas de Educación Superior:
<http://www.anui.es.mx>

Consejo Nacional de Ciencia y Tecnología: <http://www.conacyt.mx>

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Energy Sector

Overview

This report covers the sub-sectors of Oil and Gas (OGM), Electric Power Systems (ELP), and Renewable Energy Equipment and Services. These sub-sectors will continue to be a priority for Mexico's Federal Government during the period 2009-2012. The demand for imported equipment and services for the energy sector increased by 2.4% from 2007 to 2008 while U.S. exports to Mexico grew by 2.4% during the same period. The total market increased by 3.5% from 2007 to 2008. Competition will continue from Japanese, French, Chinese, Taiwanese, German, and Canadian companies.

The recent 30% peso depreciation relative to the U.S. dollar has rendered U.S. products and services more expensive. However, in this sector of large public works projects, the current exchange rate is not expected to impact significantly the competitiveness of U.S.-sourced goods and services.

The three major energy-generation government agencies: Government-owned Petroleum Company (PEMEX), the Federal Electricity Commission (CFE) and Luz y Fuerza del Centro (the federally-owned Mexico City power company) have been granted a budget of USD 20 billion during 2009 for the maintenance and investment of energy infrastructure.

Best Products/Services

The best prospects for U.S. firms include: ball, gate, and check valves for gas and oil pipelines; actuators; control systems; synthetic and wire ropes for offshore applications; subsea trees; fire and gas detection systems; steel pipe and pipe handling equipment; wire and chain linear winches; compression and process water injection modules; jackets; maintenance, testing, depletion or production of oil and natural gas wells; pumps; electrical apparatus for switching; insulated wire cable; electric capacitors; board panels; electric transformers; electric motors and generators; wind turbines; blades; solar panels, electric poles, hydroelectric plants equipment, static converters; and methane gas recuperation equipment for the generation of electricity.

Opportunities

In 2009-2012, the National Infrastructure Program and the National Investment Fund, Pemex, CFE and Luz y Fuerza plan to announce domestic and international tenders for the construction of a new refinery; drilling of over 500,000 oil wells in the Chicontepec region, State of Veracruz and Burgos, (State of Tamaulipas); construction and installation of more than 5,000 kilometers of oil and gas pipe lines; the modernization of the Salina Cruz Refinery; deep water exploration services contracts; mini-hydraulic projects in the Southern Mexico; wind to energy projects; methane gas to energy projects in the State of Aguascalientes, Mexico City, Colima. In 2009, CFE will publish international tenders for La Parota hydroelectric plant; and Guadalajara I and II combined cycle power plants.

Resources

Secretary of Energy: <http://www.energia.gob.mx>
Secretary of Economy: <http://www.economia.gob.mx>

Government-Owned Petroleum Company-PEMEX: <http://www.pemex.gob.mx>

Federal Electricity Commission: <http://www.cfe.gob.mx>

Energy Regulatory Commission: <http://www.cre.gob.mx>

National Energy Savings Commission: <http://www.conae.gob.mx>

Central Light and Power Company: <http://www.lfc.gob.mx>

College of Petroleum Engineers of Mexico: <http://www.cipm.org.mx>

National Infrastructure Plan: <http://www.infraestructura.gob.mx>

National Bank for Imports and Exports: <http://www.bancomext.com>

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Environmental Sector

Overview

This sector includes the sub-sectors of pollution control equipment (POL) and water resources equipment and services (WRE). During 2009 and 2010, local, state, and federal environmental authorities plan to implement water, wastewater, and solid waste projects that have been postponed during the last two years. Water projects remain a priority within the National Infrastructure Program 2007- 2012. The total market for the environmental sector is estimated to have grown by 1.5% during 2008. Major competitors in this market are French, German, Spanish, Canadian, British, and Japanese companies.

The recent 30% peso depreciation relative to the U.S. dollar has rendered U.S. products and services more expensive. However, in the large health-related public works projects, the current exchange rate is not expected to significantly impact competitiveness of U.S.-sourced goods and services.

Best Products/Services

Best prospects in this sector include: blowers, diffusers, air filters, check vales, chemical tanks, mixers, control panels, flow switches, pipe, brass fittings, submersible pumps, portable pumps, manual valves, sewage valves, reverse osmosis membranes, U.V. and cartridge filters, primary clarifiers; irrigation equipment, liners for landfills; solid waste containers; solid waste recycling equipment; dust collectors; hazardous and toxic waste transportation equipment; autoclaves for medical waste; medical waste transportation equipment; bio-remediation technology; environmental engineering services; and design and engineering services.

Opportunities

The environmental sector will continue to be one of the leading sectors in the Mexican economy during the period 2009-2014. During the summer of 2008, the federal government created the National Infrastructure Fund (FONADIN) that will finance 73 water and wastewater projects. The fund has also designated financing for four solid waste projects in Mexico City and the states of Morelos, Mexico, and Chiapas.

Among the projects that were postponed in 2008 but will be announced in 2009 are:

- Mexico City: Closing of landfill and design/construction of a new landfill and recycling facility;
- Mexico City: Construction of methane gas energy plant;
- Mexico City: Construction of three potable water plants; five municipal wastewater treatment plants and two pumping stations;
- State of Jalisco: Construction of a USD 487 million aqueduct;
- San Luis Potosi, Construction of USD152 million aqueduct;
- State of Tamaulipas: Construction of a USD 473 million aqueduct;
- Puerto Peñasco: Construction of a desalination plant;
- States of Jalisco, Hidalgo, Sonora: Construction of wastewater treatment plants and rehabilitation of over 150 existing municipal waste water treatment plants in various cities of Mexico.

Resources

Secretariat for the Environment and Natural Resources: <http://www.semarnat.gob.mx/>

National Water Commission: <http://www.cna.gob.mx>

National Institute of Ecology: <http://www.ine.gob.mx/>

Attorney General for Environmental Protection: <http://www.profepa.gob.mx/>

Mexican Institute for Water Technology: <http://www.imta.gob.mx/>

National Council of Environmental Executives: <http://www.conieco.org/>

National Bank for Public Works: <http://www.banobras.gob.mx/>

National Bank for Imports and Exports: <http://www.bancomext.gob.mx>

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Franchising Sector

Overview

In the last five years the Mexican franchise sector has maintained constant growth of between 14 and 17 percent. In 2008, the World Franchise Council ranked Mexico as the 7th leading nation in franchise development due to market maturity, legal framework, support from the government, number of franchise concepts in the country, and certification programs.

The overall franchise industry in Mexico has proven to be one of the most important sectors for the country's economic growth, generating over 600 thousand jobs and 55 thousand points of sale countrywide, and represents 6% of the total GDP.

Due to the economic downturn, the industry expects reduced growth during 2009 and 2010, specifically for concepts that require large investments and big operational requirements. Investors will be more cautious analyzing business opportunities, taking into consideration investment conditions, finance opportunities, and the franchisor's commitment and support.

Best Products/Services

Although the food/restaurant sector in the franchise industry in Mexico has always been a very popular business model, in 2008 the services sub-sector showed significant growth, even surpassing the food industry. Services such as entertainment concepts for children, personal care services, and repair shops among others have a great potential in the Mexican market.

Opportunities

Mexico is a diverse country that offers excellent business opportunities especially for U.S. franchise concepts due to the commercial ties between the countries and the recognition and acceptance of U.S. brands by the Mexican population. Low cost investment franchise concepts will be in demand in the next few years, as investors will be looking for innovative concepts to open in secondary markets.

U.S. franchises must be aware that since the Mexican market is dominated by local concepts, a requirement for a successful franchise business in Mexico is to adapt, and customize the concept and characteristics to Mexican tastes.

Resources

Asociación Mexicana de Franquicias: www.franquiciasdemexico.org

Feria Internacional de Franquicias: www.fif.com.mx

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Hotel and Restaurant Equipment

Overview

The Mexican Restaurant Industry grew by 2.5 percent in 2008. Despite the economic slowdown, the industry experienced decent growth and represents 2.2 percent of the national GDP and 24 percent of the tourism GDP, according to estimates provided by the National Chamber of the Restaurant Industry (CANIRAC). The restaurant industry in Mexico consists of approximately 35,000 restaurants in Mexico City and 250,000 nationwide, of which 96% are micro and small enterprises; and the remaining four percent consist of large restaurants. The industry generates more than 850,000 jobs throughout Mexico.

The Mexican restaurant industry is constantly evolving and therefore there is a constant demand for new technology. The industry reported annual sales of roughly USD \$16 billion, although this figure probably understates actual sales. The lack of technology (especially in cold chain equipment) in Mexico and the increasing sophistication of the Mexican consumer generate business opportunities for U.S. restaurant equipment exporters. Competition for this market does exist from Chinese, Italian, and Spanish manufacturers.

In 2008, the total market for this sector surpassed USD \$1.7 billion. Imports from the United States during 2008 decreased 0.8% compared to 2007. In Mexico, a limited number of ovens and refrigerators are manufactured. However, most specialized manufacturing equipment is imported from the United States and other countries. Local production mainly consists of meat grinders, slicers, refrigerators, freezers, coffee makers, ovens, kitchen furniture and utensils, and generally lack the quality and technological level of U.S.-made equipment. These Mexican manufacturers are mainly small to medium-sized companies that employ less than 50 people. More complex, large scale, and specific machinery is not produced locally, therefore providing a market for U.S. exporters.

The industry is spread across the northeastern to the central part of the country; almost 45 percent of the industry is concentrated in Monterrey, Guadalajara and Mexico City. The economic outlook for 2009 is conservative with less growth than experienced in the last few

years. It is expected that the hotel and restaurant industry will reduce its growth path during the first months of 2009, but will recover its dynamism during the last quarters (III and IV).

Best Products/Services

- Food warmers
- Food – temperature measurers
- Coffee equipment
- Display cabinets
- Shelving equipment
- Stainless steel utensils and cookware
- Catering equipment
- Tabletop centerpieces
- Tray products and carts
- Cup and glass keepers – easy to wash
- Storage and transport cases
- Smoke extraction and air purifiers systems

Opportunities

Under NAFTA, most equipment for hotels and restaurants manufactured in the United States can be imported duty-free into Mexico. U.S. companies offering products for the hotel and restaurant equipment sector should increase efforts to introduce new products into the Mexican market. Interested companies should be aware that certain segments of the market are price sensitive.

Effective June 2008, the Mexico City government approved a new non-smoking health protection law that forced restaurant operators to divide their restaurants into smoking and non-smoking sections, providing business opportunities to U.S. exporters of smoke extraction devices and air purifiers systems.

Resources

National Chamber of Restaurants: www.canirac.org.mx

World Trade Atlas-Mexico: www.bancomext.com

Secretariat of Economy: www.economia.gob.mx

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Housing and Construction Sector

Overview

Construction

In 2007 Mexico's government pledged to stimulate the construction sector as a way to spur the country's economic growth. Mexico's infrastructure sector has benefited most from the government's pledge, with an estimated investment in 2007 of \$250 billion dollars. This investment is not only to spur the economy, but also to address the lack of infrastructure investment projects in the past, and the importance of works to support the competitiveness of the country.

The total value of the construction sector in 2007, according to the Mexican government, totaled \$18,864 million dollars. The major portion (52.8%) was allocated to the building of houses and multi-use buildings, and secondly to highways (18.3%). The Mexican states that received the major investment were Mexico City (27.8%); Nuevo Leon (13%); Jalisco (6.0%) and Campeche (4.7%).

Housing

Under the Administration of President Calderon, all housing initiatives and projects throughout Mexico's 32 states are considered priorities. Federal, state and municipal governments are working closely to strengthen the housing industry in order to solve Mexico's housing deficit of over the 5 million units countrywide. All housing agencies, both government and private, are promoting projects and seeking private investment in order to counter the country's housing deficit.

For U.S. firms interested in entering Mexico's construction industry, one of the best options is to sign a joint venture agreement with a Mexican housing developer or construction firm that is active in the housing industry. Mexican companies' knowledge of the market, labor and legal aspects involved in this industry is invaluable to U.S. firms. Inflation affected construction costs by nearly 8% in 2008, according to the Index of Prices to the Builders from the Banco de Mexico. An inflation rate of 6% is expected in 2009.

Best Products/Services

Mexico offers solid sales opportunities for American manufacturers of housing and building materials. Materials with the best current sales potential are:

- Aluminum doors and windows
- Bathroom and kitchen fixtures
- Windows and window frames
- Doors and door frames
- Electrical fixtures
- Electrical insulating tubes
- Steel and iron doors and windows
- Parquet panels and wood
- Plumbing fixtures
- Plastic doors and windows
- Roofing products
- Copper tubes and pipes

Opportunities

Concessions, PEF (projects founded by the Federal Government), PPPS (private public partnerships), and Highway Assets (projects supported by FARAC funds), are the most utilized tools that the Mexican government is using to promote private investment in infrastructure projects. These projects are supported by the Mexican government funding institutions, as well as international funds such as Banobras, FONADIN, local and foreign banks, the North American Development Bank, Interamerican Development Bank, World Bank, OPIC, USTDA, ExIm Bank, and USAID.

The largest Mexican housing developers listed on the stock market announced an expected 9% income growth in 2009. Representatives from Mexico's main housing stakeholders: INFONAVIT, ARA, GEO, HOMEX, URBI and SARE; said that housing in Mexico will continue its growth, with the best market in the housing industry existing for houses between the price of

U.S. \$28,000 - \$50,000. Additionally, the low-income housing market (USD \$12,000 - \$27,000) will grow due to Federal, State and Municipal incentives to support this portion of the Mexican population.

Although the housing sector will not be affected, the global economic slowdown will specifically hit the construction industry in Mexico. Estimated effects include the delay in some construction projects, and the government postponement of some general construction projects due to the increased cost of products, including cement, steel bar, and glass.

Resources

National Chamber for Housing: <http://www.canadevi.org.mx>

National Housing Council: <http://www.conavi.org.mx/>

Mexican Chamber for the Construction Industry: <http://www.cmic.org>

National Chamber for Consulting Firms: <http://www.cnec.org.mx>

Construction and Housing Development Center: <http://www.cihac.com.mx>

National Institute for Geography and Statistics: <http://www.inegi.gob.mx>

Institute of National Housing Fund for Workers: <http://infonavit.gob.mx>

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Internet and IT Services Sector

Overview

Mexico was a late adopter of IT and Internet services as a whole. The main users in the last 5 years have been large and multi-national companies based in the 50 largest cities of the country. Nevertheless, in the last three years, individual and residential Internet services have been on a steady growth trend. According to the Internet Association of Mexico (AMIPCI), there are approximately 25 million Internet users with a national penetration rate of 26%, an urban penetration rate of 36.6%, and a 17.5% growth rate in 2008. Additionally, AMIPCI estimates that out of the 15 million PCs 59% are Internet connected and 78% of those connections have broadband access.

A full report on Internet infrastructure and user habits is available at the Mexican Internet Association's website (in Spanish only). Please visit: <http://www.ampici.org> Despite the fact that IT Services in Mexico are usually outsourced, there are companies from different countries participating in this market. Foreign firms that participate in the IT Services segments are originally from the US, India, China, and South America, but given that they are all incorporated in Mexico they are considered Mexican for this report. There are however, some users that contract their IT Services from outside of Mexico, particularly transnational firms, but this represents only about 5% of the market.

The current financial crisis will definitely impact the sector, in both residential and business accounts. Residential Internet services will most likely see very little growth. Individuals may tend to review more seriously the Triple Play Service packaged offered by TV companies in order to reduce communications cost (telephone, Internet and pay TV). This may also apply for micro and small businesses due to their size and usage. Medium and large companies will most

likely maintain their current infrastructure, and will invest only in high priority solutions such as information security.

Best Products/Services

As mentioned, opportunities are in the application, services, and content creation and distribution. There is also a great market for video games in Mexico. The development, publishing and distribution of video games represents a very good business opportunity.

- Internet/Broadband Services
- IT Services
- Digital Media/ Video Game Publishing

Opportunities

The greatest opportunities for 2009 in the Internet and IT Services Sector are in:

- Outsourced IT Services (to U.S. and European markets)
- VoIP & IPTV Applications
- Digital Media Applications
- Integrated IT Solutions
- Customer Service Solutions
- Contact Center Solutions

Resources

ISPs

<http://www.todito.com>

<http://www.esmas.com>

<http://www.prodigy.com.mx>

Regulators / Government

<http://www.cofetel.gob.mx>

<http://www.sct.gob.mx>

Chambers / Associations / Government Programs

<http://www.amiti.org.mx>

<http://www.ampici.org>

<http://www.anatel.org.mx>

<http://www.canieti.org.mx>

<http://www.canitec.org>

<http://www.lattice.com.mx>

<http://www.mexico-it.com>

<http://www.nic.mx>

<http://www.nyce.org.mx>

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Packaging Equipment Sector

Overview

According to reports from the Packaging Machinery Manufacturers Institute (PMMI), Mexico is the second largest buyer of equipment from the U.S. in the packaging industry, preceded only by Canada. In 2007 alone, the importation market reached an average of US \$460 million. Spare parts contributed another US \$65 million, bringing the total value of the industry to over a

half billion dollars. According to the Mexican Association of Packaging (AMEE), sales during the first semester of 2007 increased 2.6% when compared to 2006 data, reaching a total value of US \$7.8.

In 2007, Mexico manufactured 8.3 million tons of containers, with a production value of US \$6.9 billion. The total market value for packaging machinery in Mexico reached US\$462 million in 2007. The sales of supplies for pre-finished packaging brought the total value to US \$525 million. The Mexican packaging market is very dynamic. The breakdown in sub-sectors is as follows:

The cardboard packaging sector represents 34.9% of total sales in the industry for 2007. During the first semester of 2007, there was an increase of 7.4%, which translates into US \$1.9 billion, according to AMEE's records.

The paper-packaging sector represents 3.8% of all industry sales. During the first semester of 2006 it showed an increase of 7.8%, with total sales of US \$132 million (no new figures are available).

The metal packaging sector registered 10% growth in this period, representing over US \$535 million.

The glass-packaging sector represents 19.4% of all sales in the industry and is one of the most important sub-sectors for the packaging industry in Mexico. According to AMEE, the glass-packaging sector grew by 12% in the first semester of 2007, reaching US \$671 million. This is one of the most prosperous sub-sectors, especially considering that Mexico is the world's third largest beer producer and second largest soda consumer. The soda equipment market is roughly 12% of all the packaging equipment market (around US \$2 billion).

The Flexible Packaging Sector (bags, films) represents 18.4% of all sales in the industry, and grew by 8.7% in the first semester of 2006, reaching US \$634 million (no new figures are available).

The Rigid Plastic Packaging Sector (boxes, bottles, containers) represents 9.7% of all sales and grew by 7.3% for a total of US \$336 million.

Wood Packaging Sector represents 0.7% of all sales in the industry and grew by 2.4%, reaching US \$24 million, which is due in large part to the increase of exports in the agribusiness sector.

Best Products/Services

Food processing not only accounts for 19% of manufacturing GDP, but also for 40% of sales from the packaging industry, making it the biggest buyer sector for the packaging industry and accounting for a total industry value of over US \$60 billion (excluding beer, tobacco and coffee). The food-processing sector has also demonstrated continuous annual growth for the last 3 years with an average year on year growth of 3.7%.

The pharmaceutical industry is also one of the major correlated industries, representing almost 10% of the total demand. They are also one of the largest buyers for packaging equipment, with an annual average growth rate of 7% in the last 3 years.

Cosmetics and Personal Care Products is the third most relevant client for the packaging industry, with 10% of the overall demand for packaging equipment.

Opportunities

Mexico strives to provide excellent quality in the packaging sector. The glass packaging industry has become the main focus for companies, because of its competitive prices as compared to plastic containers, and its environmentally friendly manufacturing process.

With this boom in the packaging sector, machinery is more in demand, and the U.S. is the provider of choice for Mexican companies when acquiring new technologies. There is also a strong tendency to purchase new equipment in the sector and 85% of the equipment is imported, which represents an enormous opportunity for U.S. firms. The performance of the Mexican economy is one of the most important factors affecting future packaging machinery purchases. The large number of free trade agreements that Mexico has negotiated has created a more open and globalized economy. However, the global economic crisis has forced most packaging equipment users to freeze their budgets for future equipment purchases, due in part to the instability of the peso in regards to both the USD and the Euro accentuated by the lack of realistic growth forecast and high interest rates for most loan suppliers.

Resources

Packaging Machinery Manufacturers Institute: <http://www.pmmi.org/>

Packaging Expo in Mexico: <http://www.expopack.com.mx/>

Mexican Packaging Association: <http://www.amee.org.mx>

Institute of Packaging Professionals: <http://iopp.org>

Mexican Institute of Packaging Professionals: <http://www.envaseyembalaje.com.mx/>

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Security and Safety Equipment and Services

Overview

In 2008, the Security and Safety market in Mexico maintained its second place as the most dynamic market in Latin America after Brazil. The government has adopted diverse measures to combat crime and provide citizens with better security, including: increased budgets for law enforcement agencies, internal investigations to assure integrity in federal and state police divisions and groups, participation of NGO's to report and evaluate progress in the field, and a wider and more coordinated military deployment throughout the country.

The security market has two main components: the federal government and the private sector. Both sectors have supported the 15% expansion in the market in 2008. Mexico's total imports during 2008 reached USD\$ 4,852 million; U.S. market share was 45.5%. There is a lower participation level in contrast to previous years, and demonstrating the market's competitiveness in certain categories, such as alarms, cameras, VCRs and other products.

The economic outlook for 2009 is conservative with anticipated decreased growth. The economy will likely witness a slight contraction. Government consumption will lead the domestic demand, as the government's security budget was increased 25%.

Best Products/Services

Best prospects for products and services in the security and safety sector include:

Government:

- Armored solutions (vehicles, doors, walls, plates)
- Electronic devices for mobile phones ('interrupters')
- Electronic security solutions
- Tactical protection products (body armor, helmets, flashlights, rifle's sights)
- Satellite tracking systems for vehicles (GPS and RFID technology)

- Closed caption television systems (CCTV)
- Prisons equipment
- Radio communication solutions
- High-tech surveillance cameras
- Biometrics
- Special forces equipment

Commercial:

- Smoke and fire detectors
- Perimeter protection and residential systems
- Home intelligent systems, alarms, ID solutions, Personal protection devices (fences, locks, special lights)
- Access controls
- Electronic security

Opportunities

Personal security products, protection devices, military intelligence systems, high-tech solutions and security services have the most significant market opportunities due to high demand from the public and private sectors. Nevertheless, military products and new technologies to protect borders, facilitate customs clearance, and assure personal identification are the most promising growing sectors.

In 2009, some of the projects included in the National Infrastructure Plan (2007) related to airports, ports, roads and highways, environmental and energy plans will require additional security systems such as ports protection systems, trucks monitoring and GPS, industrial plants surveillance, advanced access controls and CCTVs.

Some particular opportunities include:

- Communication integrated solutions
- Perimetral protection and CCTVs
- Industrial surveillance systems
- Night vision devices

Resources

American Society for Industrial Security: www.asis.org.mx

Mexican Institute of Intelligent Building: www.imei.org.mx

National Council of Private Security: www.cnspp.org.mx

National Institute of Statistics, Geography and Informatics: www.inegi.gob.mx

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Telecommunications Equipment

Overview

The Mexican ICT industry grew to an estimated value of US\$39 billion in 2008, with telecommunications equipment representing about 20% of this industry. In Mexico there is a diminishing trend, however, in organic growth. As the fixed and mobile service markets tend to

mature, the growth rate will decrease over the next three years. Today, Mexico has about 72 million wireless subscribers and over 20 million fixed lines. It is expected that mobile lines will reach their maximum at 85 million subscribers, and fixed lines will tend to grow marginally thereafter.

Growth for telecom equipment vendors resides more in niche markets such as VoIP for telecom carriers and CATV operators. Additionally, equipment vendors are seeking new and untapped markets in Mexico, such as communications solutions for transportation: subway, railroads, light rail, airports and marine ports.

The Under Ministry of Communications of the SCT and the regulator, Cofetel, have announced that they will hold spectrum auctions in the beginning of 2009. The main services to be promoted in this auction will be for the following bands: 1.9 megahertz (PCS) for wireless services and 3G Internet access; 3.4 – 3.7 gigahertz for WiMAX; and 1.7 – 2.1 gigahertz for broadband wireless services.

The current financial crisis will definitely impact the sector. 2008 was the year that equipment manufacturers were refocusing their corporate strategy and developing new marketing to attract medium size companies. 2009 will be a year that will see a decrease in growth after more than 5 years. Both telecom services and telecom equipment will show small. Integrators are expected to work with equipment manufacturers in order to have better financing terms for large users. Medium size companies will have a more strict policy for loans/credits to purchase new equipment, which will decrease their spending on their current infrastructure.

Best Products/Services

Best products will remain in the ICT convergence area. We estimate that the following are the main sub-sectors where a majority of new acquisitions will be focused.

CATV: The Pay-TV industry in Mexico is experiencing strong growth with large untapped potential. Over 90% of Mexican households have at least one TV set, and Pay-TV penetration of TV households is only about 18.5%. The market has 3 technologies: Direct-To-Home (DTH) with Sky as the only operator, MMDS with MVS Multivision as its only service provider, and Cable with multiple companies in the market.

Wireless: Wireless technologies and applications for corporate and personal uses are the hot topics today. WiFi, and the future WiMAX, will provide flexibility and lower cost for connectivity.

Mobile Services: Mobile (wireless) operators are experiencing strong growth but are looking for new technologies to generate additional revenue.

High Definition Equipment: Mexico recently approved a new broadcasting law, which will motivate investment in HD equipment by TV and Radio broadcasters. Mexico has adopted U.S. ATSC HDTV Standards.

Network infrastructure: We see significant investment in expanding and upgrading fixed-line networks. The national utility company, CFE, is today a licensed carrier-of carriers by offering its extensive network for transport to telecom operators.

VoIP: VoIP is growing in demand and will continue to expand into small and medium size businesses.

Opportunities

The greatest opportunities for 2009 in the Telecom Equipment Sector are in:

- Security appliances
- Mobile Broadband applications

- Power Line Communications
- VoIP & IPTV applications
- WiMAX equipment

Resources

Comisión Federal de Telecomunicaciones – Telecom Regulator:

<http://www.cofetel.gob.mx>

Cámara Nacional de la Industria Electrónica de Telecomunicaciones e Informática:

<http://www.canieti.org/>

AMIPCI – Asociación Mexicana de Internet (Mexican Association of Internet):

<http://www.amipci.org.mx/>

CANITEC – Cámara Nacional de la Industria de Televisión por Cable:

<http://www.canitec.org/>

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Transportation Infrastructure Equipment and Services

Overview

The Mexican transportation sector is facing one of the most important challenges in its history. The huge increase in Mexican foreign trade, in addition to the increase in traffic of merchandise arriving at Mexican ports with final destinations to the U.S. and Canada, is requiring a quick response from the transportation sector to improve efficiency, cost savings and cargo security.

Although railroads have increased their participation in the transportation sector, railroad operators are intensively working to offer better services to attract new clients. They are buying more locomotives, replacing equipment and improving/expanding intermodal terminals. Mexico has about 64 intermodal terminals operating with at least four new terminals to be built in 2009. The goal of President Calderon's team is to increase the volume of cargo using railroad transportation by at least 18-20 percent by the year 2012.

Most maritime ports are expanding their container terminals' capacity or planning to build additional facilities. In particular, the Mexican Pacific Coast ports of Lazaro Cardenas, Manzanillo, Guaymas, and Topolobampo, are trying to offer an alternative to U.S. importers using the almost saturated ports of Los Angeles and Long Beach. They are developing aggressive plans to prepare for a significant increase in cargo traffic to the U.S.

In July 2007 President Calderon announced a National Infrastructure Program describing the projects that will receive priority during his presidential term. The plan proposes investments of 6 billion USD for the construction of five new ports (some are new terminals at current ports) and 22 modernizations. It also includes projects for new cargo facilities at several airports, the construction and modernization of 17,000 kilometers of roadways, USD 4 billion to increase rail track speeds from 25 to 40 km/hour on key routes, the implementation of 10 new multimodal corridors, the construction of 12 new intermodal terminals, and the modernization of existing terminals. These projects have resulted in an important increase in demand for all types of equipment and services for intermodal transportation. However, due to the world economic situation and its impact on the Mexican economy, some projects could be delayed for the next two to three years.

Best Products/Services

Domestic production comprises low-tech equipment (such as front loaders, nonsophisticated traffic control systems, open and closed freight cars, and rail track fixtures) and strong production of trucks and trailers, including international corporations such as Chrysler, Freightliner, Mercedes Benz, International, and Kenworth. All high-capacity cranes, railroad and lifting equipment are imported. Under NAFTA, most equipment for intermodal transportation manufactured in the U.S. can be imported duty free.

Products having the best prospects in this market include: frame, mobile and rotary cranes, self-propelled cranes on tires, front loaders with a capacity of over 7 tons., mobile platforms, traffic-control equipment, diesel electric locomotives, railway maintenance service vehicles, rail and tramway freight cars, automatic unloading wagons, covered and closed cars, assemblies for railway vehicles, containers, chassis, and trailers.

Opportunities

From January to October 2008, the U.S. supplied 63 percent of the sector's total imports. This share could be increased if American firms take full advantage of NAFTA conditions and become more aggressive in the sector. The U.S. Commercial Service can provide information on new projects and support introduction of products into this market.

Resources

Secretary of Communications and Transportation: www.sct.gob.mx

National Association of Private Transportation: <http://www.antp.org.mx/>

National Cargo Transportation Chamber of Commerce: www.canacar.com.mx

Expo Transporte: <http://www.expotransporteanpact.com.mx/>

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Travel and Tourism Services

Overview

The United States is the number one destination for Mexican travelers. In 2008, an estimated 13.5 million Mexicans traveled to the United States, representing over a quarter of the total foreign arrivals to the country. Mexico is the second source of international travelers to the United States after Canada.

In 2007, spending by Mexican travelers in the U.S. totaled \$9.5 billion. Approximately 75% of this amount is tied to the 1.9 million Mexicans who traveled to the United States by air.

The current USD/Mexican Peso exchange rate has made U.S. destinations more expensive and this is expected to impact travel and vacation decisions. In fact, preliminary figures for 2008 show a 6% decrease in travelers from Mexico to the United States. This reality makes more compelling the need to actively promote U.S. destinations.

Best Products/Services

It is important to differentiate between land and air Mexican travelers to the United States. Mexican land tourists usually travel to the southern states for a short time period in order to visit relatives or friends and to shop. In contrast, air travelers usually stay longer and buy packages that include transportation, lodging, shopping, and recreational activities. These tourists are particularly lucrative since they are the ones who generate most of the travel and tourism receipts to the United States.

The Mid-Atlantic and the Pacific regions maintained the largest market shares for Mexican travelers to the United States. The top four “first intended” destinations, that are not strictly border visits, are California, Texas, Arizona, and Nevada. New Mexico, Colorado, New York, Illinois and Georgia were also on the list.

Opportunities

Mexicans are drawn to the United States because of its destination diversity, infrastructure, and excellent travel and tourism services. In particular, Mexicans enjoy destinations that offer shopping, gaming, entertainment, amusement parks, and a cosmopolitan environment. Natural parks and other outdoor destinations are typically not popular among Mexico with skiing the notable exception – Mexicans flock to resorts in Colorado and New Mexico in the winter months to ski.

Wholesale operators in Mexico continue to be an important distribution channel in the Mexican travel and tourism market. Wholesalers sell their packages to the travel agents who provide their services to the end consumers. Mexicans prefer to make their travel arrangements through a travel agent, due to apprehension about providing their credit card information through the internet. Nonetheless, U.S. wholesalers and tour operators are becoming key players in the Mexican market since they negotiate directly with U.S. travel and tourism services companies and are able to offer better prices and packages.

Wholesalers in Mexico are now buying products and services from receptive tour operators in the United States to save money and facilitate processes. It is crucial to establish and maintain a personal relationship with the travel and tourism companies in Mexico. U.S. travel and tourism companies are advised to travel to Mexico and develop a comprehensive follow-up strategy to obtain sufficient exposure in the Mexican market and increase sales. Distributing promotional material at one trade show is not likely to generate meaningful results.

Resources

Office of Travel and Tourism Industries: <http://tinet.ita.doc.gov>

Travel Industry Association of America (TIA): <http://www.tia.org>

Visit USA Committee Mexico: <http://www.visitusa.com.mx>

ExpoVacaciones USA Trade Show: <http://www.expovacacionesusa2009.com>

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